MONTANA

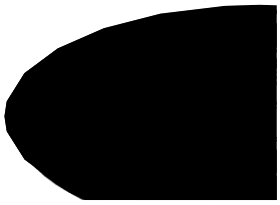
DRINKING WATER STATE REVOLVING FUND

BIENNIAL REPORT

FOR STATE FISCAL YEAR 2000
(JULY 1, 1999 THROUGH JUNE 30, 2000)

Prepared by

Montana Department of Environmental Quality
and
Department of Natural Resources and Conservation



for

EPA Region VIII

DECEMBER 2000

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MONTANA
DRINKING WATER STATE REVOLVING FUND (DWSRF)
BIENNIAL REPORT
STATE FISCAL YEAR (SFY) 1998 AND 1999

T A B L E OF C O N T E N T S

PAGE

I. INTRODUCTION 1
II. EXECUTIVE SUMMARY SFY 2000 1
III. GOALS OF THE DWSRF 2
IV. FINANCIAL REPORT 5
V. DETAILS OF DWSRF ACTIVITY 5
Loan Assistance 5
Project Bypass 5
Disadvantaged Community Systems 6
Small Systems 7
Project Provided Funding 8
First Round Loans 10
Source of Funds 10
Assistance Activity 10
Set Asides 11
Administration 11
Small Systems Technical Assistance 11
Public Water Supply Supervision Administration 12
Source Water Protection Program Administration 13
Capacity Development 14
Operator Certification 15
Local Assistance - Source Water Delineation and Assessment 15
VI. GRANT CONDITIONS AND CERTIFICATIONS 16
VII. CURRENT STATUS AND FUTURE ACTIVITIES 19
VIII. GLOSSARY OF ACRONYMS AND INITIALIZATIONS 20

EXHIBITS

Exhibit 1: Sources of DWSRF Funds Through SFY00 21
Exhibit 2: DWSRF SFY00 Binding Commitments Executed 22
Exhibit 3: History of DWSRF Binding Commitments 24
Exhibit 4: DWSRF Projected Binding Commitments SFY00 25
Exhibit 5: DWSRF Closed Loans SFY99 23
Exhibit 6: SFY99 Summary of DWSRF Federal LOC-ACH Draws 26
Exhibit 7: DWSRF Projected vs. Actual Federal LOC Cash Draws 28
Exhibit 8: DWSRF Budget & Draws by Set-Asides 30
Exhibit 9: DWSRF Loans--MBE/WBE For Contracts Awarded During SFY99 29
Exhibit 10: Recycled Loans .....

APPENDICES

Appendix A: SFY00 Cash Flow Model A-1
Appendix B: SFY00 Financial Statements Unaudited with Footnotes B-1
Appendix C: SFY00 & 01 Intended Use Plan C-1

MONTANA
DRINKING WATER STATE REVOLVING FUND (DWSRF)
BIENNIAL REPORT
STATE FISCAL YEARS (SFY) 1998 &1999

I. INTRODUCTION

This biennial report adheres to the Operating Agreement negotiated between the State of Montana and the Environmental Protection Agency (EPA) concerning the administration of the Drinking Water State Revolving Fund (DWSRF). The annual report summarizes DWSRF activities for the state fiscal period beginning July 1, 1997 and ending June 30, 1999 (SFY98 & 99).

The DWSRF program was established as a result of the 1996 Amendments to the Federal Safe Drinking Water Act which provided the authority for EPA to make capitalization grants to states. The grants, in conjunction with state matching funds, are used to provide financial assistance for the construction of drinking water projects and to support administration of the state program.

In anticipation of the 1996 Amendments to the Federal Act, the 1995 State Legislature, under Title 75, Chapter 6, Part 2, Montana Code Annotated, passed the enabling legislation, entitled the Safe Drinking Water Treatment Revolving Fund Act, giving authority to the Montana Department of Environmental Quality (DEQ) and the Department of Natural Resources and Conservation (DNRC) to adopt administrative rules to implement the program. Legislation also provided ability to generate state match funds, through the sale of state General Obligation Bonds (GO Bond Authority). Amendments to the Drinking Water State Revolving Fund Act were passed in the 1997 and 1999 Legislative Sessions. The 1997 amendments changed the title of the Act from “Safe Drinking Water Treatment Revolving Fund Act” to the “Drinking Water State Revolving Fund Act” and also made other changes consistent with the Federal Act. During the 1999 Legislative Session, the 1999 amendment clarified the transfer language between the DWSRF and Water Pollution Control State Revolving Fund (WPCSRF) Programs and added GO Bond Authority**.**

II. EXECUTIVE SUMMARY SFY98 & 99

During SFY98 Montana applied for and was awarded its first capitalization grant in the amount of $14,826,200.

During SFY99 Montana disbursed funds from its first capitalization grant for a total of $5,849,199. Also, Montana was appropriated $7,121,300 in FFY98 and $7,463,800 in FFY99. We have applied for these funds in SFY99.

Since the inception of the DWSRF, Montana has issued one GO bond and one Bond Anticipation Note (BAN). The proceeds of which have been used as state match for loans, set asides, and program administration. Montana issued its first GO bond on October 6,

1998 (SFY99). The total amount of bonds issued to date is $3,065,000. A summary of these bond issues is provided in Exhibit 1. Montana is planning for its second GO Bond in calendar year 2000.

Exhibit 1, Sources of DWSRF Funds Through SFY98 & 99, provide a complete tabulation of capitalization grant awards received through June 30, 1999, projected state match, binding commitments for loan projects for fiscal years through SFY99, and GO bonds and BANs issued for state match. The combination of capitalization grants and bond proceeds provide the needed funds for DWSRF projects, set asides, and program administration during SFY98 & 99. In addition, DNRC provided a portion of their program administration services as an in-kind contribution in the amount of $24,675.

During SFY98 & 99, the DWSRF program executed twelve project binding commitment agreements totaling $23,309,000 and increased one current year binding commitment. The one increase totaled $965,000 making our total commitment of funds $24,274,000 for the period. The program closed seven DWSRF loans in SFY99. For a detailed breakdown of all DWSRF binding commitments signed and key dates of project activity that occurred in SFY98 & 99, refer to Exhibit 2: DWSRF SFY98 & 99 Binding Commitments Executed.

In November 1998, the Montana Electorate passed Constitutional Initiative CI-75. In effect CI-75 stopped construction of all projects. The Montana Supreme Court overturned CI-75 in February 1999. This did allow communities to start work on projects again. However, because of CI-75, projects were not designed and not ready to go out for bid. Communities could not go through the public process required to raise rates and charges to pay for the projects. The public hearing process may take between 30 and 90 days. Therefore, many communities in Montana lost a year or more before they could borrow money for projects.

Detailed information concerning use of DWSRF funds, accomplishments of the program and adherence with the stated goals of the program are provided on the following pages.

III. GOALS OF THE DWSRF

A. LONG-TERM GOALS

1. To build and maintain a permanent, self-sustaining state revolving fund program that will serve as a cost-effective, convenient source of financing for drinking water projects in Montana.

   Projects funded during SFY99 met all program requirements governing financial capability to assume debt. Four of seven communities received an interest rate of 4.0% on their loans (well below market rates) and three of the seven qualified for an interest rate of 3.0% under the disadvantaged community criteria. These factors illustrate that the assistance is affordable. We received a cashflow

model from Piper Jaffray Inc. A copy of the cash flow with all the activity through SFY99 is included in the report as Appendix B.

2. To provide a financing and technical assistance program to help public water supplies achieve and maintain compliance with federal and state drinking water laws and standards for the protection and enhancement of Montana's public drinking water.

To promote the availability of these DWSRF program services during SFY98 & 99, DWSRF staff presented information at a variety of events. These included six infrastructure workshops, the annual Montana Rural Water Systems conferences, the annual AWWA/WPCF conferences, the annual Water School for Water and Wastewater Operators and Managers, as well as meeting one on one with community leaders. Marc Golz and Gary Wiens also attended the EPA Needs Survey training meetings and have worked extensively with those systems selected for the survey to identify their needs.

Please also refer to the project descriptions and discussion of set-asides provided in Section V. Details of DWSRF Activity.

B. SHORT-TERM GOALS

1. Develop and implement a Drinking Water State Revolving Fund Program in Montana.

This has been completed. Montana submitted its DWSRF program documents consisting of Statutes, Administrative Rules, Trust Indenture, Intended Use Plan, and Operating Agreement to EPA on February 6, 1998. The application for the FFY97 capitalization grant was submitted at that same time and was awarded on June 30, 1998.

2. Ensure the technical integrity of Drinking Water SRF projects through the review of planning, design plans and specifications, and construction activities.

The trained technical staff of the Planning, Prevention and Assistance Division (PPAD) continue to use the DWSRF Handbook of Procedures and knowledge gained from seven years of operating the WPCSRF Program to ensure that this objective is met. The Handbook of Procedures is used as a guide to ensure that all state and federal laws governing the technical aspects of each project are satisfied.

Steps are being taken to update the Handbook of Procedures to streamline checklists and processes. This project is planned to occur during this next year utilizing the recommendations from EPA's first annual review of the program and newly adopted

administrative rules regarding capacity development. Other suggested improvements by program staff that have been noted during application to actual projects will also be incorporated.

Staff attends training seminars and workshops to maintain and improve technical, financial and programmatic knowledge. In SFY98, Anna Miller and John Tubbs attended the Council of Infrastructure Financing Authorities (CIFA) National Workshop; Anna Miller, John Tubbs, Jeff Lustgraaf, Diana Hoy, Marc Golz, Gary Wiens and Bob Fischer attended the DWSRF All States Workshop; Anna Miller and Mark Smith attended the CIFA Legislative Conference; and Bob Fischer attended the annual Joint Engineers' Conference.

In SFY99, Anna Miller, Jeff Lustgraaf, Ann Bauchman, Ann Danzer, and Mark Smith attended the EPA Financial Management workshop; Anna Miller, Diana Hoy, Jeff Lustgraaf, and Mark Smith attended the DWSRF All States Meeting; Marc Golz and Mark Smith attended an APWA teleconference entitled Selection and Use of Consultants; Bob Fischer attended the annual Joint Engineers' Conference; and Gary Wiens attended the AWWA Water Quality Technical Conference.

3. Ensure the financial integrity of the Drinking Water SRF program through the review of the financial impacts of the set-asides and disadvantaged subsidies and individual loan applications and the ability for repayment.

See Appendix B: Cash Flow Model SFY99.

4. Ensure compliance with all pertinent federal, state, and local safe drinking water rules and regulations.

To the best of our knowledge, the DWSRF program has ensured PWSS compliance through the projects that have been funded and the various set-aside activities. Close coordination with the PWSS program has been essential in this effort.

5. Obtain maximum capitalization of the funds for the state in the shortest time possible while taking advantage of the provisions for disadvantaged communities and supporting the set-aside activities not directly related to the loan portfolio.

Since the approval of its DWSRF loan program and first capitalization grant award, Montana has applied for the next two capitalization grants, utilized the provision to transfer funds between the WPCSRF and DWSRF, and generated other revenue from loan repayments and interest investments. With the expected approval of these next capitalization grants, the loan fund will be raised to a total of over $37 million. Funding for set-asides will consist of over $5.2 million, including 1:1 match for state program management activities.

IV. FINANCIAL REPORTS

The financial reporting process is more involved due to the additional audit requirement for the State Revolving Fund Programs. Montana has opted to have these audits performed by the Montana Legislative Audit Division (LAD). The SFY98 DWSRF financial statements were audited as a separate audit engagement. Particular effort was given to present the financial statements under the modified accrual basis of accounting for the Special Revenue and Debt Service Funds that comprise the Fund. Accompanying footnotes to the financial statements also required more preparation to provide adequate supporting information.

The LAD completed their audit work of the SFY98 financial statements in the spring of 1999 and rendered an unqualified opinion, which means the readers of the financial statements can rely on the information presented. A copy of the audit report was submitted to EPA. The preparation of the report would not have been possible without the many hours of cooperation, discussion and agreement between DWSRF staff at DNRC and DEQ, the LAD staff and EPA Region VIII staff involved.

A copy of the SFY99 unaudited financial statements, including footnotes are included as Appendix A of this report. The LAD plans to complete their audit of the SFY99 DWSRF activity in the spring of 2000.

V. DETAILS OF DWSRF ACTIVITY

A. LOAN ASSISTANCE

During SFY98 & 99 the DWSRF program closed seven loans; signed twelve project binding commitment agreements; and increased one binding commitment (see Exhibit 2: DWSRF SFY99 Binding Commitments Executed). We drew funds down on all seven loan projects.

Project Bypass

If it is determined by DEQ that a project or projects are not ready to proceed or that the project sponsors have chosen not to use the Drinking Water SRF funds, other projects may be funded in an order different from that indicated on the priority list. If DEQ chooses to bypass higher ranked projects, it should follow the bypass procedure.

The bypass procedure is as follows:

1. DEQ shall notify, in writing, all projects which are ranked higher than the proposed project on the Drinking Water SRF priority list, unless it is known that a higher project will not be using Drinking Water SRF funds.

2. The notified water systems shall have 15 calendar days to respond in writing with any objections they may have to the funding of the lower ranked project.

3. DEQ shall address, within a reasonable time period, any objections received.

If DEQ determines that immediate attention to an unanticipated failure is required to protect public health, a project may be funded with Drinking Water SRF funds whether or not the project is on the Drinking Water SRF priority list. DEQ will not be required to solicit comments from other projects on the priority list regarding the emergency funding.

Montana bypassed 65 projects on its Priority List with the funding of Lakeside, ranked 72. Six other loans were closed. Please see Exhibit 3: DWSRF Closed Loans SFY99. The notification included the proposed projects to be funded, and the assurance that funds were still available for all loan applications anticipated at that time. All communities on the Priority List were notified in accordance with the above procedures, and no responses were received.

Disadvantaged Communities

Communities seeking a Drinking Water SRF loan that meet the disadvantaged community criterion listed below may receive an additional subsidy on their SRF loans, beyond the standard below-market rate financing. This includes communities that will meet the disadvantaged criterion based on projected rates as a result of the project.

A community is considered economically disadvantaged when its combined monthly water and wastewater system rates are greater than or equal to 2.2% of the community's Median Household Income (MHI). If the community has only a water system, the percentage is 1.4% of the community's MHI. These percentages are consistent with affordability requirements for other state funding agencies in Montana. The water and sewer rates used for this calculation include new and existing debt service and required coverage, new and existing operation and maintenance charges, and normal depreciation and replacement expenses.

To assist these economically disadvantaged communities, the Drinking Water SRF loan program will provide to qualifying communities a waiver of the loan loss reserve fee, which will result in an annual 1.0% interest rate reduction on the project loan. The total amount of reduced interest rate loans that the Drinking Water SRF may make under any single capitalization grant will be limited to 20% of that capitalization grant.

In SFY99, Montana closed three loans at a 3% interest rate, for a total of $928,000, with communities that satisfied the disadvantaged criteria. In addition, one binding commitment was signed for $3,324,000 at a 3% interest rate. (See Exhibit 2: DWSRF SFY99 Binding Commitments Executed.)

Small Systems

The table below shows the breakdown of the population served by our loans through 6/30/99. We have 7 loans for a total of $7,469,000. Six of these loans are with small systems that serve a population of less than 10,000 for a total of $6,869,000. This represents 92% of the funds.

PWS	Population	Loan Amount
1. East Helena	1,720	$228,000
2. Laurel	6,125	$5,250,000
3. Lakeside	495	$400,000
4. Havre	10,232	$600,000
5. Twin Bridges	421	$300,000
6. Whitefish	5,793	$400,000
7. Sunset West	120	$291,000
Total		**$7,469,000**

Eleven of the thirteen binding commitments are with small systems that serve a population of less than 10,000. This represents 74% of the committed amount, or $17,854,000 of the $24,274,000 total.

Projects Provided Funding

Following is a brief summary of the projects which began or continued activity during SFY98 & 99:

The City of East Helena Phase I Engineering loan funded the design of 16,400 feet of new transmission pipe to replace a deteriorating asbestos-cement pipeline, a new telemetry system to improve reliability and efficiency, a new storage reservoir southwest of town, and roof repairs on the existing concrete reservoir. Water meters will be installed on all water services and approximately 18,000 feet of new distribution mains will be constructed to loop existing dead-end mains and upsize existing mains. The engineering loan is $228,000 and the construction loan is currently sized at $3,234,000. Construction began in June 1999 and completion is expected in early 2000. The phase II construction loan is scheduled to close in July 1999. This project will help Montana meet its intended use plan goals of ensuring

the technical integrity of the project and funding a project that addresses public health protection through compliance with the asbestos maximum contaminant level set in the Phase II rule.

The Lakeside County Water and Sewer District project was constructed in 1998. The project consisted of the replacement of 90% of the Lakeside community's existing distribution system. That system, constructed about 30 years ago, was undersized and inadequately looped, resulting in low pressures and inadequate fire flows. The project also included the rehabilitation of an existing above-grade painted steel storage reservoir, including new coating, valves, and telemetry. Remote readout water meters were also installed at each system hookup for the system.

Construction was performed under two (2) separate contracts by two (2) separate contractors. Completed in February, 1999, the project is performing satisfactorily. The Performance Criteria Certification Date has been established as March 1, 2000. The total cost of the project was $1,134,128. The amount of the DWSRF loan was $400,000. Other funding included grants from the Treasure State Endowment Program and a Renewable Resource loan from the DNRC.

The City of Laurel Water Treatment Plant and Water Main Improvements consisted of two separate contracts (Schedules I and II). The water treatment plant improvements (Schedule II) started on June 29, 1998. This work included construction of a new chlorine contact basin (clearwell) and chemical feed equipment. Modifications to the existing plant included addition and modification of existing pumps, process piping, valving, instrumentation and control system, and repair of the existing concrete sedimentation and flocculation basins. The work remaining on the water plant improvements includes the final O&M manual and final construction punch list items. Construction work on the water main improvements (Schedule I) started July 20, 1998. The project has been completed, and work consisted of replacing undersized or deteriorated water mains with approximately 5400 feet of new 18-inch mains. Total funds for both contracts drawn through the end of June 1999 were $4,326,748. The total loan amount is $5,250,000. Principal repayments began on January 1, 1999. This project will help Montana meet its intended use plan goals by correcting deficiencies that could have a potentially negative impact on public health and providing compliance with the surface water treatment rule for disinfection requirements.

The Missoula County Rural Special Improvement District #8458 (Sunset West Water System Improvements) project started construction on Nov. 9, 1998. A winter shutdown was authorized from December 18, 1998 to March 15, 1999. The date of substantial completion was May 3, 1999 and final completion was August 6, 1999. The project included construction of 10,000 feet of 4-inch main to an existing well, wellhead improvements, storage tank improvements, installation of telemetry control system, pumping equipment, and service connections and meters. Total funds drawn through the end of June 1999 were $277,822. The total loan amount is

$291,000. This project will help Montana meet its intended use plan goals by improving public health protection (increasing system pressures to required pressures and providing adequate supply to the existing system).

The Town of Twin Bridges project consists of the construction of a new 300,000 gallon steel storage reservoir, the replacement of 80% of the community's existing distribution system, the construction of 7,000 l.f. of 12" PVC transmission main, and pump and control modifications at one of the four supply wells that serve the system. The existing storage and distribution systems were constructed over 50 years ago, and were deteriorated, leaking, and undersized. The community regularly experienced low system pressures, inadequate fire flows, and excessive losses due to exfiltration.

Construction was performed under two (2) separate contracts by two (2) separate contractors. Completed in June, 1999, the project is performing satisfactorily. The Performance Criteria Certification Date has been established as July 1, 2000. The total cost of the project was $1,300,000. The amount of the DWSRF loan was $300,000. The balance of the funding included grants from other state agencies and $70,000 in local match.

The City of Whitefish Phase I Engineering loan funded the design of a surface water treatment plant adjacent to the city's Haskill Reservoir, a raw water intake and pump station on the shore of Whitefish Lake, and a transmission pipeline to deliver untreated water from the lake to the plant. The engineering loan is $400,000 and the construction loan $5,839,000. Construction will begin in August 1999 and is expected to continue into the summer of 2000. The construction loan has not been closed. This project will help Montana meet its intended use plan goals of ensuring the technical integrity of the project and funding a project that addresses public health protection through compliance with the surface water treatment rule.

A tabulation of aggregate information can be found in Exhibit 4, History of DWSRF Binding Commitments. This table tabulates the quarterly federal payments, totals quarterly SRF binding commitments and cumulative binding commitments, and calculates Montana=s achievement of its 100% binding commitment grant condition. This fiscal year, the DWSRF maintained steady performance by executing twelve project commitment agreements. The DWSRF completed SFY99 with binding commitments totaling 160.82% based on grant payments received four quarters earlier. We project in SFY00 that we will execute in excess of $5,000,000 in binding commitments. See Exhibit 5: DWSRF Projected Binding Commitments SFY00.

B. FIRST-ROUND LOANS:

First-Round loans are financed with capitalization grants and state match. The DWSRF has financed the projects listed in Exhibit 3: DWSRF Closed Loans SFY99.

C. SOURCE OF FUNDS:

Two sources of funds are used to capitalize the DWSRF: (1) the Federal Capitalization Grant, which provides 80% of the DWSRF loan funds; and (2) the state match, funded through the sale of GO bonds, which provides 20% of the DWSRF loan funds. State legislation originally authorized the sale of up to $10 million in GO bonds to match federal grant funds. In the 1999 Legislative session an additional $10 million of GO bonds was authorized for state match bringing the total to $20 million. This amount is adequate to cover funds currently authorized for the program. At the time this report was written, $3,065,000 of GO bonds have been issued by the DWSRF program to use as state matching funds. See Exhibit 1: Sources of DWSRF Funds Through SFY98 &99. In-kind services of $24,675 have been provided to the DWSRF program by DNRC as match to federal grant funds and were used for program administration.

D. ASSISTANCE ACTIVITY:

Exhibit 2 outlines the assistance activity that occurred in SFY98 & 99. Twelve project binding commitments were executed and seven loans were closed.

Exhibit 6, SFY99 Summary of DWSRF Federal LOC-ACH Draws shows forty-one loan disbursement requests for $5,141,698, twenty-two administrative set-aside disbursement requests for $578,356 and thirty-nine other set-aside disbursement requests for $129,145 were made for a total of $5,849,199 drawn on the Federal Letter of Credit, Automatic Clearing House (LOC-ACH) during SFY99. No disbursement requests were made in SFY98.

Exhibit 7, DWSRF Projected VS. Actual Federal LOC Cash Draws summarizes the federal payment schedule, the projected third quarter disbursement estimates and the actual draws upon the LOC-ACH showing the variance of $933,668 between Montana's projected and actual draws during SFY99.

SET - ASIDES

ADMINISTRATION ($593,048)

The DWSRF set aside the maximum four percent from the FFY97 capitalization grant or $593,048 total, for program administration. Almost all of the funds were expended including DEQ's contract with DNRC. Activities that occurred were:

- development of the program, intended use plan and project priority list
- hiring and training of new staff, including purchase of computer hardware and other office equipment
- review and assistance during planning, design, project bidding and construction
- loan origination work, administering repayments
- preparation of bond issuances with state's bond counsel firm of Dorsey & Whitney

- financial modeling
- DWSRF program audit
- costs associated with the legislatively appointed advisory committee
- development of the technical assistance set-aside work plan, request for proposal (RFP), contractor selection, and contract administration
- public comment processes.

SMALL SYSTEMS TECHNICAL ASSISTANCE SET-ASIDE ($296,524)

DEQ developed a Work Plan for a small systems technical assistance set-aside during the spring and summer of 1998. The Work Plan was submitted to EPA on September 1, 1998 and was approved by EPA on November 12, 1998. In addition to the Work Plan, DEQ developed a RFP to provide the technical assistance via a contractor. The RFP was advertised in November 1998 and proposals from prospective contractors were accepted until November 17, 1998. The DEQ received proposals from 8 different contractors.

The successful contractor, Midwest Assistance Program, was notified of acceptance of the firm's proposal on March 3, 1999. Subsequent contract negotiations concluded with a contract being signed in early June of 1999. This contract is now being implemented and a list of over 43 systems has been approved for technical assistance. By June 30, 1999 nine systems had been provided with technical assistance ranging from identifying physical problems with the water system equipment to providing a written guide for a record keeping system.

We are still in the early stages of this contract, but we fully expect the Contractor to provide a range of assistance designed to help water system operators or managers with their operation and maintenance efforts. The services will include:

- helping operators to identify and prioritize water system needs
- helping operators to address the identified needs
- helping operators to operate and calibrate water treatment analytical and chemical feed equipment
- helping operators to repair malfunctioning analytical or chemical feed equipment
- explaining disinfection practices
- briefly discussing capacity development, cross-connections, source water protection, water conservation and operator certification requirements and providing the operator with a list of people or organizations to contact for in-depth information on these subjects

The contractor will also be available to be on call to provide targeted technical assistance when the need arises. This contract will allow DEQ to request that the contractor not only help make the initial adjustments, but also provide the operator with the necessary information to properly operate and maintain the equipment on his own.

While the above discussion focuses on operations and management technical assistance, the Work Plan discussed another facet of the set-aside. This facet is intended to be in the form of a separate contract to provide assistance with water system planning, financial and managerial elements of capacity development. DEQ has recently finished adopting capacity development regulations and now can focus efforts on developing an RFP to address this prong of the small system technical assistance set-aside.

PWSS Set-Aside: Administration ($100,000)

No activity is reported for this set-aside in FFY 98 or 99. This set-aside will initially be used to complete sanitary surveys of public water supplies through contracted services. The Public Water Supply Section (PWSS) is behind schedule for completion of surveys. Because of limited staff resources, contracted services will continue to be necessary to return water suppliers to compliance for this important regulatory requirement.

Sanitary surveys/private contractor – ($50,000). A contract with a consultant for completion of sanitary surveys expired on June 30, 1999. Other income was used for this contract. It is anticipated that a new contractor will begin work on approximately January 1, 2000. Approximately $50,000 from this set-aside will be used during the first year of the new contract.

*Sanitary surveys/local departments of health – ($50,000)***.** Contracts with 9 local departments of health will expire on September 30, 1999. Other income is being used for these sanitary survey contracts. It is anticipated that all 9 local department of health contracts will be renewed. An additional $50,000 from this set-aside will be used to fund the first year of the new local health department contracts.

A final workplan is in development.

PWSS Set-Aside: Source Water Protection ($120,000)

Two contracts have been implemented to collect source water information, and to make this information available to DEQ staff and the public. This information will be used in source water assessment and delineation activities as required by the SDWA, in making future DEQ permitting decisions, and in review of applications for public water supply monitoring waivers.

Bureau of Mines and Geology – ($60,000). A contract with the Montana Bureau of Mines and Geology (MBMG) in Butte will provide the following information: 1. Search the Groundwater Information Center (GWIC) database developed by MBMG to correlate well logs with existing public water supply sources, provide copies of well logs to the PWSS, correlate GWIC well log identification numbers with the public water supply source identification number to provide a link between GWIC

and the PWSS database; 2. Enter existing well log information into GWIC to provide a more complete listing of groundwater wells and aquifer information; 3. Sample vulnerable wells identified by the PWSS for parameters that may provide more information regarding source susceptibility, and; 4. Collect latitude/longitude information for existing PWS sources.

Well logs that may serve public water supplies that are currently in GWIC have been identified and reported to the PWSS. Additionally, correlations between wells in GWIC and in the PWSS database have been made for Missoula County. This effort will continue in other counties. Recent well logs for 3,000 private and public wells have been entered in to GWIC. Older well logs have been retrieved from historical DEQ files and have been sent to MBMG so they can also be entered into GWIC. Sampling of vulnerable wells has begun in Mineral and Ravalli Counties. Latitude and longitude locations will be collected by a variety of field and office methods, and the method used will be recorded for future reference.

Montana State Library/Natural Resource Information System (NRIS) - ($60,000). A contract with NRIS was implemented to augment the MBMG contract. This contract initially was intended to provide the following information: 1. Compare latitude/longitude locations obtained from address-matching efforts to locations obtained from global positioning system (GPS) readings; 2. Create a geographical information system (GIS) database layer of public water supply sources using existing latitude/longitude information, and; 3. Train PWS Section staff in the use of Arcview, Arcexplorer and other NRIS Internet interactive mapping applications.

Address matching was determined to be ineffective as a means of identifying source locations. In response to these findings, an alternate effort was initiated. It was determined that NRIS would work together with the PWS Section and Source Water Protection Section to develop a Source Water Protection “portal”. This portal will provide an Internet site for DEQ staff, public water suppliers, and the general public to access layers of information relevant to source water assessment and delineation activities. GIS layers of existing information such as wells, aquifers, geology, land use, population density, incorporated city limits etc. will be accessible through this site for any location in the state. Consultants will have access to this information in their efforts to collect source water information for existing and proposed public water sources.

An ultimate goal of the PWS Section is to develop a complete database that will be useful in source water protection efforts, and that will be accessible via the Internet. These contracts will provide much needed information in the current database.

PWSS Set-Aside: Capacity Development ($50,000 - Amended)

CD-ROM Interactive Training Video - ($35,000*)***.** The Montana State University Water Center contracted with the DEQ for $35,000 to develop an interactive CD-

ROM training videos The subject matter was to include: 1. source water assessment and delineation procedures, and; 2. construction, operation and maintenance of groundwater systems. Operators could use the videos to obtain training and credit for continuing education. Unfortunately, total project funding was apparently not adequate, and the Water Center expended the entire $35,000 on the source water protection video. No agreement has been reached regarding further work on the groundwater system training video. The source water protection video has been distributed to a wide audience for review, and comments are still being received by the Water Center.

PWSS capacity development activities - ($15,000). None of the capacity development program expenses have been charged to this set-aside to date. Although considerable time has been devoted by staff in development and adoption of the rules, there has been surprisingly little response from the public even though three public hearings were held prior to rule adoption, and three training sessions were held after rule adoption. This portion of the set-aside will likely be used to fund technical assistance activities associated with implementation of the new capacity regulations, pending approval by EPA of a revised workplan.

PWSS Set-Aside: Operator Certification ($55,000 - Amended)

This set-aside has been used for personal services and operating expenses for staff in the Operator Certification Program. The program has hired a new full-time certification technician and now has three full-time staff. Set-aside funds are used to pay portions of the salary, benefits and operating expenses for all three positions.

In the past year, the program has certified over 1300 public water system operators, including 1100 community system operators and 200 non-transient noncommunity system operators. Certification program activities include public outreach, collection and processing of applications, collection and processing of examination and certification fees, training, administration of exams, monitoring of continuing education credits, compliance monitoring, and assistance with formal enforcement activities. Over 90% of the public water supply systems in each category have certified operators.

The Certification Program Manager, Shirley Quick, attended an EPA seminar in Denver to obtain information regarding EPA's program requirements. Preliminary work has been done to prepare the Montana application to EPA for approval of our Operator Certification Program.

Local Assistance and Other State Programs – Source Water Delineation and Assessment ($1,482,620)

Montana used funds from this set-aside for delineation and assessment. The first step in the process was the re-development of the wellhead program into a source water protection program (SWPP). The Montana SWPP was submitted to EPA in January 1999, following an extensive development process that included advisory

council input as well as consideration of comments received through public meetings held around the state and an Internet based enhanced public participation project. Montana expects the SWPP to be approved by EPA by November 1999. After that date, full implementation will begin.

The Montana SWPP uses a combination of approaches to complete the assessments. For many source waters, state staff resources and contractors will complete the source water delineation and assessment reports. For sources serving selected community water systems, a pass through grant option has been developed to allow a public water system (PWS) to complete the delineation and assessment report either directly, where in-house expertise exists, or through a contractor of their choice. The latter is a delegation mechanism intended to help develop local ownership of the effort as well as to help complete the reports by the statutory deadline. The process by which this delegation will occur and the criteria by which eligible communities will be selected is more fully described in the Montana SWPP document.

Please see Exhibit 9: DWSRF Budget and Draws by Set-Asides, for a financial summary of all of these non-project activities.

VI. GRANT CONDITIONS AND CERTIFICATIONS

The State of Montana agreed to the following conditions outlined in the Operating Agreement. These items are discussed in more detail throughout the body of this report. To the best of our knowledge, DEQ and DNRC have abided by all requirements of state and federal law in the administration of this program.

a. Assurance that the State has the authority to establish a Fund and operate the DWSRF program in accordance with SDWA.

   The State of Montana's authority was re-certified and included with our applications for the FFY98 and FFY99 capitalization grants.

b. Assurance that the State will comply with State Statutes and regulations.

c. Assurance that the State has the technical capability to operate the program.

d. Assurance that the State will accept capitalization grant funds in accordance with a payment schedule.

   Please see Exhibit 7: DWSRF Projected vs. Actual Federal LOC-ACH Draws.

e. Assurance that the State will deposit all capitalization grant funds in the

Fund or Set-Aside Account.

f. Assurance that the State will provide an amount equal to at least 20 percent of the capitalization grant (State match) in the Fund.

g. Assurance that the State will deposit net bond proceeds, interest earnings, and repayments into the Fund.

h. Assurance that the State will match capitalization grant funds the State uses for 1452(g)(2) set -asides.

i. Assurance that the State will use Generally Accepted Accounting Principles.

j. Assurance that the State will have the Fund and set-aside account audited annually in accordance with Generally Accepted Government Auditing Standards.

Please see Section IV Financial Reports

k. Assurance that the State will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments (or in the case of privately owned system, demonstrate that there is adequate security).

l. Assurance that the State will commit and expend funds as efficiently as possible, and in an expeditious and timely manner.

m. Assurance that funds will be used in accordance with the Intended Use Plan.

n. Assurance that the State will provide EPA with a Biennial Report.

The submission of this document will fulfill the State of Montana's responsibility to submit a Biennial Report.

o. Assurance the State will comply with all Federal cross-cutting authorities.

p. The state agrees that it will conduct an environmental review and a determination will be executed and distributed using a state process consisting of the same level of environmental detail required under the state Environmental Review Process for the Clean Water SRF Program.

The four construction projects that received assistance during SFY99 were reviewed and approved using the Montana Environmental Policy Act (MEPA). It was determined that no Environmental Impact Statements were

necessary. An Environmental Assessment was prepared and a Finding of No Significant Impact was issued for all four projects.

q. The use of set-asides for Administrative Expenses, Small Systems Technical Assistance, State Program Management (Public Water Supply Supervision, Source Water Protection, Capacity Development, and Operator Certification), and Local Assistance and Other State Programs (Source Water Delineation) will be identified each year in the IUP and established in accordance with the Drinking Water SRF Program Guidelines.

r. Specific Requirements under Title XIV

1. In accordance with Section 1420(a) of the Safe Drinking Water Act, the state has the authority to ensure that all new community water systems and new nontransient, noncommunity water systems commencing operation after October 1, 1999, can demonstrate technical, managerial, and financial capability with respect to each national primary drinking water regulation in effect.

EPA has reviewed and tentatively approved Montana's capacity development authority and strategies. Administrative Rules that implement Montana's strategies become effective on September 10, 1999.

2. The state currently has a water and wastewater treatment plant operators certification program within the Permitting and Compliance Division, Department of Environmental Quality.

In addition, the following conditions were given with the Capitalization Grant Award. To the best of our knowledge, DEQ and DNRC have abided by these requirements as well.

- The recipient agrees to ensure that all space for conferences, meetings, conventions, or training funded in whole or in part with Federal funds complies with the Hotel and Motel Fire and Safety Act of 1990.

- EPA Order 1000.25 Recycled Paper – DEQ is using recycled paper for printing reports to be delivered to EPA.

- Minority Business Enterprises/Women Business Enterprises (MBE/WBE) Utilization Under Federal Grants – During SFY98 and SFY99 loan recipients were required to comply with all Federal requirements concerning Disadvantaged Business Enterprises (DBE) Utilization either by project specification or submitting appropriate reports during construction.

The state's fair share goal for DBE participation is 6% for SFY98 (4% MBE, 2% MBE) and 5% for SFY99 (2%MBE, 3% WBE). Refer to Exhibit 8 for the summary of the DWSRF Loans – MBE/WBE for contracts awarded during SFY99.

VII. CURRENT STATUS AND FUTURE ACTIVITIES

The DWSRF continues to use the US Bank as its trustee to manage funds and accounts established under the program. To date this arrangement has been very beneficial. DNRC gained access by computer modem to US Bank accounts which has made monthly reconciliation of WPCSRF and DWSRF accounts more timely. D.A. Davidson and Co. and Piper Jaffray Inc. continue to act as the DWSRF bond underwriters and financial advisors. Dorsey & Whitney will continue to act as DWSRF bond counsel for the general obligation bonds issued in future fiscal years. The contract between DNRC and Dorsey & Whitney was renewed and continues into SFY2000.

Also, DEQ has began work on the development of a complete database, which ultimately will include links with the DWSRF, the PWSS program, and fiscal services in both DEQ and DNRC. The Planning Division has allocated up to .5 FTE for development of the WPCSRF and DWSRF databases. This person will coordinate database development and will serve as liaison between SRF program staff and DEQ's data processing staff. The target is to have the system fully operational by the start of the next state fiscal year (July 1, 2000), which also will facilitate next year's federal reporting.

The following schedule indicates the key dates for continuation of the Drinking Water State Revolving Fund Loan Program in SFY00:

SFY00 ESTIMATED KEY DATES	ACTIVITY
July 1999	Held DWSRF bi-monthly meeting
September 1999	Held DWSRF bi-monthly meeting
October 1999	Held planning and financing workshops to promote and market DWSRF program
November 1999	Held DWSRF bi-monthly meeting
January 2000	Hold DWSRF bi-monthly meeting
Spring 2000	Hold infrastructure financing workshops to promote and market DWSRF program
March 2000	Hold DWSRF bi-monthly meeting
	Hold DWSRF bi-monthly meeting

SFY00 ESTIMATED KEY DATES	ACTIVITY
May 2000	
May 2000	Region VIII all states meeting

VIII. GLOSSARY OF ACRONYMS AND INITIALIZATIONS

ACH Automatic Clearing House
BAN Bond Anticipation Note
BMP Best Management Practices
CIFA Council of Infrastructure Financing Authorities
DBE Disadvantaged Business Enterprises
DEQ Montana Department of Environmental Quality
DNRC Montana Department of Natural Resources and Conservation
DWSRF Drinking Water State Revolving Fund
EPA Environmental Protection Agency
FFY Federal Fiscal Year (which begins October 1 and ends September 30)
GAN Grant Anticipation Note
GO General Obligation
IUP Intended Use Plan
LAC Legislative Audit Committee
LAD Legislative Audit Division
LOC Letter of Credit
MBE Minority Business Enterprises
MPDES Montana Pollution Discharge Elimination System
NPS Nonpoint Source
NMP National Municipal Policy
PPAD Planning, Prevention and Assistance Division
PPL Project Priority List
RSID Rural Special Improvement District
SFY State Fiscal Year (which begins July 1 and ends June 30)
SID Special Improvement District
SWP Source Water Protection
TFAB Technical and Financial Assistance Bureau
TSEP Treasure State Endowment Program
USDA – RD United States Department of Agriculture, Rural Development

W_2ASACT Water, Wastewater and Solid Waste Action Coordinating Team

WBE Women Business Enterprises

WPCSRF Water Pollution Control State Revolving Fund